



STATE OF DELAWARE

**PUBLIC SERVICE COMMISSION**

861 SILVER LAKE BLVD.  
CANNON BUILDING, SUITE 100  
DOVER, DELAWARE 19904

TELEPHONE:  
FAX:

(302) 736-7500  
(302) 739-4849

August 13, 2015

TO: The Chair and Members of the Commission

FROM: Malika Davis, Public Utility Analyst *MD*

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR  
AN INCREASE IN NATURAL GAS BASE RATES AND MISCELLANEOUS TARIFF CHANGES  
(FILED DECEMBER 7, 2012) – PSC DOCKET NO. 12-546

---

**Application**

On June 1, 2015, Delmarva Power & Light Company ("Delmarva" or the "Company") made a compliance filing for the purposes of implementing the Interface Management Unit ("IMU") phase-in rate changes. The filing requests approval to implement the rates on September 14, 2015. The rate changes incorporate the second of two phases related to recovery of the IMU regulatory asset (the "IMU Asset") for a total revenue requirement of \$793,250. Approval of these rates will result in a slight increase of 0.5% or \$0.66 in the monthly bill of a typical residential customer using 120 ccf in a winter month.

In connection with its review of the Company's compliance filing, Staff performed a field audit on July 30, 2015. The audit focused on the costs and benefits included in the IMU Asset and the requirements of Order No. 8465 issued by the Commission on October 22, 2013. The Order permits the Company to recover the Advanced Metering Infrastructure ("AMI") regulatory asset as follows:

"AMI IMU Regulatory Asset Recovery"

1. Pursuant to Order No. 7420 (Docket No. 07-28), Delmarva established a regulatory asset for operating costs associated with the deployment of the interface management unit (IMU) portion of Delmarva's Advanced Metering Infrastructure (the "IMU Asset"). The IMU Asset has been accruing a return since its establishment. Unlike the installation of AMI meters for the electric metering portion of the Company's Advanced Metering Infrastructure, the completion of the IMU portion has experienced a delay of approximately 24 months, compared to the installation of electric meters.
2. The Settling Parties agree to a phase-in of the recovery of the IMU Asset into customer rates (the "Phase-In") as follows;
  - a. 50% of the IMU Asset will be put into rates on May 1, 2014.

b. The remainder of the IMU Asset will be put into in rates on March 1, 2015.

3. In order to establish that the IMUs are functioning as planned before any percentage of the IMU Asset may be included in rates on the dates referenced above, the Company must establish that for a period of at least 90 days prior to the applicable dates:

- a. with respect to the May 1, 2014 portion of the Phase-In, 95% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned; and
- b. with respect to the March 1, 2015 portion of the Phase-In, 99% of eligible meters have been equipped with an activated IMU device and those IMU devices are functioning as planned.

Eligible meters consist of meters that are intended to be equipped with IMU devices.

4. The filings for each portion of the Phase-In must be made at least 105 days prior to each phase-in date set forth above. Notwithstanding any language to the contrary contained herein, the 90 day period described in Section C. 3. hereof must include at least one of the following months: November, December, January, February, March, or April.

5. The IMUs will be considered to be "functioning as planned" if 95% of the IMU devices have been sending remote readings that are being used for billing purposes and those readings are both 99.5% accurate and 99.5% timely. For purposes of this requirement, the accuracy rate of 99.5% will be considered achieved if no more than 0.5% of the bills require adjustment after the bill has been presented for payment to the customer. The timeliness rate of 99.5% will be considered achieved if no more than 0.5% of bills are sent later than three full business days after the final meter reading within each customer's monthly billing period. Any failure to achieve the 99.5% accuracy and timeliness requirements must be due to an error attributable to the IMUs. For purposes of calculating the percentage of meters functioning as planned, the IMU accuracy rate and the timeliness rate, IMUs that are unable to function as planned due to external forces outside the reasonable control of the Company will not be included in the total number of the activated IMUs for the purpose of determining compliance with the 95% and 99.5% requirements contained in this Section.

6. If the requirements for the portion of the Phase-In intended for May 1, 2014 are not met by the Company, then:

- a. The portion of the Phase-In originally scheduled to occur on that date will be postponed until such time as the Company meets the requirements (as set forth above) to phase in rates on that date, and
- b. The portion of the Phase-In originally scheduled to occur on March 1, 2015 will be postponed until 9 months from the date that the first portion of the Phase-In actually goes into effect.

If the requirements for the portion of the Phase-In originally scheduled to occur on March 1, 2015 are not met by the Company, then the Phase-In that would have occurred on that date will be postponed until the Company meets the requirements (as set forth above) to phase in rates on that date.”<sup>1</sup>

## Timing of the Filing

On April 11, 2014, Delmarva met the requirements to implement phase one of the rates and the rates were implemented on July 11, 2014 in accordance with PSC Order No. 8576. The Company’s phase two compliance filing indicates that as of April 17, 2015, 99.09% of the eligible 128,603 meters had been equipped with an activated IMU and that 97.49% of those were functioning as planned. Of those functioning as planned 99.54% met the accuracy requirement and 100% met the timeliness requirement.

## Staff Review

### Overall Rate Changes

The following table shows the rate changes related to the IMU phase in. As you can see in Table 1, residential customers have seen a slight increase of 1.59% or \$1.03 due to the IMU phase in. But, they have seen an overall reduction of 6.58% or \$9.15 in their typical winter bills due to large decreases in the Gas Cost Rates.

Table 1

	Pre-Phase in Eff. 11/1/13	IMU Phase 1 Eff. 7/11/14	IMU Phase 2 Eff. 9/14/15	
Customer Charge	\$11.34	\$11.41	\$11.52	
Commodity Charge- 1st 50 ccf	\$ 24.97	\$ 25.11	\$ 25.37	
Commodity Charge-over 50 ccf	\$ 28.05	\$ 28.21	\$ 28.50	
Total Base Rate	\$64.36	\$64.74	\$65.39	
ESR	\$0.0708	\$0.0708	\$0.1464	
GCR	\$74.53	\$74.53	\$64.28	
<b>TOTAL</b>	<b>\$138.96</b>	<b>\$139.34</b>	<b>\$129.81</b>	
\$ Base Rate Increase		\$0.38	\$0.65	\$1.03
% Base Rate Increase		0.58%	1.00%	1.59%
Overall Bill \$ Increase		\$0.38	-\$9.53	-\$9.15
Overall Bill % Increase		0.27%	-6.84%	-6.58%

Note: Calculation assumes a 120 ccf per month residential space heating customer

<sup>1</sup> PSC Order No. 8465, Exhibit A pgs. 6-8

The documentation in the Company's compliance filing included work papers supporting the second phase-in of recovery for the IMU Asset. During the field audit Staff examined Delmarva's general ledger accounts along with records and invoices related to the IMU Asset. The IMU Asset is comprised of several components which include loss on early retirement of remote index devices; deferred operating & maintenance expenses; AMI related returns; incremental depreciation expense; and AMI operating and maintenance savings. All documentation was consistent and accurate with the filing. Table 2 – Attachment A of the compliance filing – shows the IMU Asset Balances at each phase in.

Table 2

DELMARVA POWER & LIGHT COMPANY									
DOCKET NO. 12-546									
AMI / IMU REGULATORY ASSET BALANCES - MAY 2015 FILING - PHASE-IN RECOVERY REVENUE REQUIREMENT									
LINE #	ITEM	JAN. 2014	JULY 2014	FEB. 2014 -					
1	AMI REGULATORY ASSET BALANCES	\$*	PHASE-IN \$*	APR. 2015 \$**	APR. 2015 \$***				
2	LOSS ON EARLY RETIREMENT OF REMOTE INDEX DEVICES	2,670,712	(1,335,356)	118,103	1,453,459				
3	DEFERRED O&M EXPENSES	3,308,931	(1,654,466)	1,528,559	3,183,025				
4	AMI-RELATED RETURNS	495,816	(247,908)	954,181	1,202,089				
5	INCREMENTAL DEPRECIATION EXPENSE	384,073	(192,037)	497,220	689,256				
6	AMI O&M SAVINGS	(350,887)	175,444	(585,359)	(760,802)				
7	TOTAL	6,508,645	(3,254,323)	2,512,704	5,767,027				
8	PHASE-IN RECOVERY %	50%			100%				
9	AMI REGULATORY ASSET BALANCE	3,254,323			5,767,027				
10									
11	REVENUE REQUIREMENT								
12	EARNINGS								
13	AMORTIZATION	216,955			384,468				
14	STATE INCOME TAX	(18,875)			(33,449)				
15	FEDERAL INCOME TAX	(69,328)			(122,857)				
16	EARNINGS	128,752			228,163				
17									
18	RATE BASE								
19	BEGINNING BALANCE	3,254,323			5,767,027				
20	AMORTIZATION	(216,955)			(384,468)				
21	ENDING BALANCE	3,037,368			5,382,559				
22	AVERAGE BALANCE	3,145,845			5,574,793				
23	DEFERRED STATE INCOME TAX	(273,689)			(485,007)				
24	DEFERRED FEDERAL INCOME TAX	(1,005,255)			(1,781,425)				
25	NET RATE BASE	1,866,902			3,308,361				
26									
27	REVENUE REQUIREMENT								
28	EARNINGS	128,752			228,163				
29									
30	RATE BASE	1,866,902			3,308,361				
31	RATE OF RETURN	7.29%			7.29%				
32	RETURN ON RATE BASE	136,097			241,179				
33									
34	TOTAL	264,849			469,342				
35	REVENUE CONVERSION FACTOR	1.69013			1.69013				
36	TOTAL REVENUE REQUIREMENT	447,629			793,250				
NOTES									
* - AMOUNTS USED FOR JULY 2014 AMI REGULATORY ASSET PHASE-IN RECOVERY (INITIAL PHASE-IN)									
** - ACTIVITY FROM FEBRUARY 2014 - APRIL 2015									
*** - AMOUNTS USED FOR MAY 2015 AMI REGULATORY ASSET PHASE-IN RECOVERY (SECOND AND FINAL PHASE-IN)									

**Recommendation**

Staff's review supports the revised tariffs as consistent with the settlement agreement attached to Order No. 8465. Accordingly, Staff recommends that the Commission approve implementation of the proposed rates to be effective with usage on and after September 14, 2015 as requested by the Company. Staff also recommends that this docket be closed.